

AR27

We let it be.



PoP Shoppes
International Inc.

Annual Report 1977



Pop Shoppes
International Inc.

Annual Report 1977



In Thousands	1977	1976	% Change
Systemwide Sales	40,509	30,353	33
Revenues	22,558	16,896	34
Net Operating Earnings	2,531	1,883	34
Net Earnings	2,531	3,537	(28)
Shareholders' Equity	15,782	13,562	16
Earnings Per Share			
Basic	.56	.79	(29)
Fully Diluted	.54	.75	(28)
Common Shares Outstanding			
(Weighted average)			
Basic	4,332	4,303	1
Fully Diluted	4,710	4,773	—
Licensed Markets	55	50	10

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The Annual General Meeting of Shareholders will be held in the Four Seasons Hotel, Toronto, June 29th, 1978 at 5:00p.m.



PoP Shoppes International Inc. enjoyed its most successful year in 1977, with net operating earnings of \$2,531,416 compared to \$1,882,715, an increase of 34% over 1976.

Total sales throughout the entire PoP Shoppes system also showed significant gains, reaching a record of \$40.5 million in 1977, an increase of 33% (up from \$30.4 million) in 1976. The 1972 annual sales were \$4,500,000. This growth reflects the sales by 41 new licensed territories opened during the past 6 years, and the increase in sales in existing operations.

While net earnings for 1977 were lower (56 cents per share versus 79 cents per share in the previous fiscal year), the 1976 net earnings were a result, in part, of an unusual item of 39 cents per share arising principally from the sale of a 20% interest in PoP Shoppes of America Inc. to Imasco Limited of Montreal.

Expansion

Significant developments for PoP Shoppes International during 1977 included major expansion in the American market, with the opening of new licensed territories in Indianapolis, Indiana; Louisville, Kentucky; Minneapolis, Minnesota; Nashville, Tennessee; Boston, Massachusetts; New York; Rhode Island; and San Diego, California. With the addition of these territories PoP Shoppe products are now sold in over 1200 outlets in North America.

In a further move into the highly competitive American market, PoP Shoppes of America acquired the highly successful Towne Club Beverage Corporation of Detroit in July, 1977. Towne Club was established 20 years ago and has grown to include licensee bottling plants in Detroit, Grand Rapids and Saginaw, Michigan; Tampa, Florida; and Rochester, New York. The basic concept behind Towne Club is similar in many ways to The PoP Shoppe, and we are confident that the "natural fit" of the two companies will significantly accelerate PoP Shoppes' growth plans in the U.S. The present management of Towne Club, including owner and founder, Mr. Harold Samhat, will continue and the Towne Club brand name will be retained.

In the 1976 Annual Report I announced that serious inquiries had been received regarding the introduction of The PoP Shoppe concept into the Western European and Australian markets. I am pleased to announce that letters of intent have recently been signed for the Territory of Australia (with first right of refusal for New Zealand) and for the West German market.

Our further plans for 1978 include new licensed territories in Miami and Ft. Lauderdale, Florida; Rock Island, Moline and East Moline, Illinois; Davenport, Iowa; Oklahoma City, Oklahoma; St. Louis, Missouri; and Omaha, Nebraska.

Equity Positions

In February 1978, Imasco Limited announced its intention to convert its \$7 million U.S. Debenture into PoP Shoppes of America common stock. This conversion (to be finalized by October 30th, 1978) will bring Imasco's total investment to \$10,200,000 U.S. and its holding to 50% of that company's common stock.

As most of you are probably aware, Venturetek International Limited, the controlling shareholder, has decided to divest its entire holding of PoP Shoppes International Inc. This decision is in keeping with Venturetek's investment objectives. Venturetek provides venture capital to new and existing growth companies with the major objective of achieving long-term capital gains. Its investment policy is to take a controlling equity position in companies in their start-up phase. Venturetek believes that PoP Shoppes has now reached self-sufficiency.

New Listing

It is interesting to note that as of June, 1977, the common stock of PoP Shoppes International Inc. was listed in the "National OTC-NASDAQ List" in the various newspapers that carry such quotes.

The stock is quoted under the symbol P.S.I.I.F.

The stock of the Company is listed on both the Toronto Stock Exchange and the Montreal Stock Exchange where it trades under the symbol P.S.I.

People

I wish to re-iterate once again my firm conviction that the success of The PoP Shoppe concept is to the credit of a devoted group of people beginning with those who staff the plants and retail outlets and extending right up to the senior executives. A special thank you is due to the Board of Directors of PoP Shoppes International. Their support and guidance has been a key element in the achievement of our objectives.

Executive Changes

Ron Findlay, Executive Vice-President of Imasco Associated Products Ltd., and Wilmat Tennyson, Executive Vice-President of Imasco Associated Products Ltd. have been appointed to the Board of Directors of PoP Shoppes of America. Scott Griffin, President of PoP Shoppes of America, Inc. has also been appointed to his Company's Board of Directors.

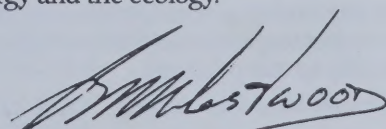
George Ross, President of Imasco Associated Products Ltd., Andrew McIntyre and Gary Shaw have resigned from the Board of Directors of PoP Shoppes of America. Mr. McIntyre has acquired our Kansas City/Wichita franchise, while Mr. Shaw remains associated with The PoP Shoppe as President of PSI Limited (a wholly-owned subsidiary of PoP Shoppes International).

In addition to management changes, Martin Crispo has resigned from the Board of Directors of PoP Shoppes International and has been replaced by Peter Powell of the Canada Development Corporation. I would like to thank Mr. Crispo for his dedication and invaluable service during a most important 5-year period in the growth of PSI.

May I extend my personal gratitude to all who have played important roles in our nine years of development.

The Ecology

Conservation of energy and the protection of our environment have long played an integral part in the The PoP Shoppe concept. The visual treatment of this Annual Report is intended to emphasize our corporate commitment to this notion. Additionally, pages 6 and 7 feature a brief analysis of The PoP Shoppe System as it relates to energy and the ecology.



BRUCE M. WESTWOOD
President.

The PoP Shoppe Concept

4

Behind every great idea is another great idea.

Our first great idea is the basis for our business.

Without that idea, we wouldn't be in business.

That idea is so simple (and nine years later, so effective and profitable) that we still talk about it like a bunch of kids.

The PoP Shoppes idea is to cut the price of soft drinks by eliminating the biggest single expense—distribution. Without that costly network of agents, delivery people (and their trucks), without outlets on virtually every block in town, the distance between the pop we make and the pop you take is considerably shortened.

This means that we can give the public high quality soft drinks at prices that make sense.

The first PoP Shoppe was opened in London, Ontario, Canada in 1969 with the factory in the back and the store in front.

That first PoP Shoppe was an instant and continuous success. Today, our 1200 outlets across North America sell in excess of 1 million bottles of pop per day.

But low price wasn't the only good idea behind PoP Shoppes: the familiar bright red plastic case was important too.

We figured that by using returnable glass bottles and asking the customer to pay the highest deposit in the soft drink industry, \$4.00 a case, there would be a strong incentive to bring back those empties in the bright red case and buy more PoP Shoppe pop.

Also, in our mind back then was an idea, that today, is changing the nature of every industry in the world.

The idea is conservation, because we sell pop, not packages and because 98% of our bottles are returned to us, by far the highest returns in the entire soft drink industry.

The plain fact is that from our very first year, PoP Shoppes has won a great deal of community and association recognition and awards for our contribution to energy conservation and a clean environment.

For example, an independent study based largely on the findings of the Province of Ontario's Solid Waste Task Force found this out:

The total energy used by The PoP Shoppe to deliver one case of pop in 10 ounce returnable containers was just over a third of that used by major bottlers in the other system.

What's more, some of our licensees are exploring the use of solar installations to heat water for bottlewashing. We anticipate saving up to 720 million BTU's per year from this process.

So there is a direct link at The PoP Shoppe between dollar savings and energy savings. And these days—with skyrocketing energy costs—that's a combination everyone can appreciate and profit from.

A question we're often asked is this:

How can you sell high quality at such a low price?

Well, we've answered part of that question above: our savings come from the distribution end, not the product. In fact, the quality of our product is uniformly high throughout the industry.

To ensure this quality in every outlet, our two associated companies (Kist Canada Ltd., who has supplied quality soft drink concentrate for over 40 years, and Heritage Flavor Corp. in the United States) supply us with only premium-quality ingredients. Their products are continually inspected by our quality control food chemists.

In addition, this year we installed mini-laboratories in many of our factory outlets across Canada and the U.S., which allows us to do on-premises inspection and laboratory analysis to guarantee a consistent quality to our products.

Another idea that worked: OUR ADVERTISING.

Getting people to change the way they have bought pop all their lives is no easy task. It takes a lot of very effective advertising to get the potential customer into our outlets for the first time. After that, our





product, our price and our convenience do their own advertising. Independent studies have shown that for every 100 people who walk in our doors, 98 will return.

Our advertising budget this year reflects the importance we put on converting people to the PoP Shoppes ideas: to get our message across, our licencees and corporate operations will be spending over \$3 million in advertising alone. Millions of people will see The PoP Shoppes advertisements on television, radio and in newspapers. In addition, we provide our dealers with a wide variety of promotional programs that will build up volume in their neighbourhood and keep The PoP Shoppes a fun and exciting place to shop.

We are especially happy this year to have obtained the services of Mr. Eddie Shack, who is well known throughout Canada and parts of the United States as the Entertainer of the National Hockey League.

Eddie Shack, as our Mr. PoP Shoppe, has created a whole new excitement to our Canadian marketing program. He is helping PoP Shoppes of Canada Limited to state the value story—through the statement, “I’ve Got A Nose For Value”.

Still another idea that worked: OUR PREMISES. When you walk into any PoP Shoppe outlet, you’ll see an attractive and inviting decor that reflects the quality of our product and the convenience to our customers.

All the PoP Shoppes are soft drink super-markets.

After returning a case of empty bottles to The PoP Shoppe, our customers pick up a special cart that they push with an empty case down the aisles of PoP Shoppe pop.

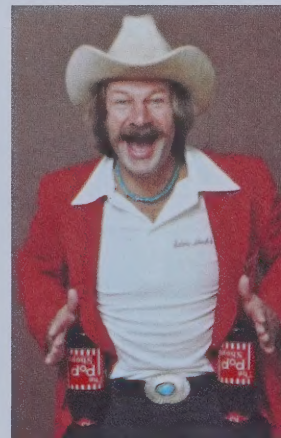
They have a choice of twenty-four different 300 millilitre bottles, or twelve family-sized bottles. The customer can mix or match 16 regular flavours, 10 sugar-free flavours (and in Canada, 3 calorie-reduced flavours).

But the customer is not all on his own. Our fully-trained staff members are always available to help the customer in their choice of soft drinks and to make their visit as enjoyable—and educational—as possible.

We began with one good idea. Behind that idea are a lot of other good ideas whose time has clearly come. One of them is expansion. Already, we have captured 7% of the total soft drink market in Canada. Our objective over the next 6 years is to obtain 5% of the \$8 billion North American soft drink market.

Our distribution. Our conservation. Our product. Our advertising. Our premises. And our expansion.

All of these add up to our success; and to an idea that’s waiting in the wings: THE FUTURE



The story's been in and out of the newspapers for more than a decade now.

Part of it concerns us directly; part of it concerns everyone here in North America; we hope all of it will be decided as quickly as possible. Our own input will be very important in determining how it is decided. Yours will be just as vital.

The story is called the ecology.

Our business is deeply involved with almost every environmental issue—from maintaining clean production and bottling facilities to creating a distribution system that will conserve energy while keeping costs to a reasonable level.

However, for now we'd like to limit our remarks to one vital part of the entire environmental issue—and that is the question of returnable and non-returnable bottles. We'll be the first to admit that an annual report isn't the most traditional forum for a statement like this, and a company that sells soda pop is not the usual spokesman for the burning issues of the day.

So we'll mind our own business and limit our remarks to that.

We believe strongly that the non-refillable soft drink container is a classic example of an unnecessary form of packaging; the epitome of society's wastefulness.

The debate about non-returns centres on four environmental issues:

1. Energy conservation.
2. Material resource conservation.
3. Reduction in the amount of solid waste generated.
4. Litter.

On each of these issues, the arguments for using returnable containers (as we do always) are overwhelming. It has been proven in study after study that returnable containers save significant energy, conserve precious resources, reduce solid waste, and go far in eliminating unsightly litter.

Governments throughout North America have reacted to this issue with an array of regulations that range from mandatory use of refillable containers to no restrictions whatsoever on non-refillables.

One jurisdiction with particular experience and knowledge of the issue is the Government of Ontario, Canada.

In 1972, its Ministry of the Environment established a Solid Waste Task Force to study and report on every factor affecting the whole question of non-returns. After considerable research and debate, it concluded that refillable containers were clearly superior to non-returns in all four environmental categories.

We also find it interesting to note that The PoP Shoppes is one of the very few North American soft drink bottlers who already comply with all ten of the Task Force's recommendations.

Here are some of the reasons why factory-retail outlets in general, and The PoP Shoppes in particular, came in for such praise:

1. It takes 3.97 times more energy to manufacture, distribute and dispose of non-refillable bottles than it does with the PoP Shoppe system.
2. It takes 2.94 times more energy to manufacture, distribute and dispose of soda pop cans than it does with PoP Shoppe bottles.
3. If the life of a regular refillable is 12 return trips (from initial manufacture to re-cycling), the total energy expended is 2.23 times greater than that used for the same number of trips under The PoP Shoppe system.
4. The regular refillable bottle (with 25 trips) requires 1.95 times as much energy as The PoP Shoppe system.





5. The energy used in the life cycle of one case of twenty-four 10 ounce bottles of PoP Shoppe pop is less than a third of that used for a similar case of ordinary pop.

In different terms, the comparison still holds true:

The average case of 24 ten ounce PoP Shoppe bottles enjoys a minimum life-span of 40 trips back to us to be refilled. Therefore it takes 960 cans of other soda pop to equal just one case of PoP Shoppe pop in terms of energy expended. Add to this the tremendous expenditures of energy and money in disposing of or recycling these cans, plus the costs of packing them in cardboard cartons and sending them out to market, and it becomes very clear that there is simply no comparison between the two systems. PoP Shoppes' is cleaner, cheaper, safer, more convenient and much much less wasteful. ENOUGH SAID.

Naturally, we're proud of our record and our efficiency. A company such as ours expends a good deal of its own energy in persuading officials, the press and the public of the obvious advantages of our system over the others.

But the battle is not yet won, and the entire issue of non-returnables is far from resolved. In next year's annual report, we hope to be able to tell you that the 250 million North Americans who drink soda pop can do so in a way that will do everyone a lot of good.



In the meantime, we hope you'll keep in touch with the debate over non-returnables in your own community and get involved in working for a safer, cleaner, less wasteful environment.

After all, The PoP Shoppes is your company too, and you have approximately 2,000 other shareholders supporting your efforts—and ours. THANK YOU.

Operating Results

1977 was another year of record achievements for your Company. For the sixth consecutive year, the Company continued its unbroken record of annual gains by achieving new highs in revenues and operating earnings. 1977 consolidated sales and other operating revenues increased 34% to \$22,558,000 from \$16,896,000 in 1976. Net operating earnings rose 34% in 1977 to \$2,531,416 from \$1,882,715 in 1976.

The increase in revenues results primarily from the 18% gain in soft drink sales and concentrate sales to our licensees. It is interesting to note that the compounded growth rate of our revenues for the last five years is 79%, increasing from \$1,231,006 for the year ended January 31, 1973.

Systemwide sales of \$40,500,000 in 1977 represent an increase of 33% or \$10,150,000 over 1976 sales of \$30,350,000. The 1977 sales are more than 9 times the 1972 annual sales of \$4,500,000.

This growth was the result of sales by 41 new licensed factories and territories opened during this six year period and the increase in average sales volume of existing licensees.

Cost of sales, marketing, selling and administrative expenses increased to \$.81 per sales dollar in 1977 from \$.79 per sales dollar in 1976. This is a result of the opening of new corporate factory locations in the U.S.A. throughout 1977. Interest charges rose to \$1,543,000 in 1977 from \$838,000 in 1976 also as a result of the extensive expansion undertaken in the U.S.A. during 1977.

It is the Company's policy to charge to income over a 60 month period pre-opening and development costs. During 1977 the charge to income from these items was \$798,544 up from \$447,495 in 1976.

Consolidated net operating income was \$2,531,416 or \$.56 per share up 34% over the 1976 figure of \$1,882,715 or \$.40 per share.

Income Taxes

Income taxes for 1977 were \$397,000 or 12.7% of pre-tax income, compared to \$826,000 or 18.8% of pre-tax income in 1976. The lower effective income tax rate in 1977 is a result of capital transactions and investment tax credits on capital expenditures.

Earnings

Consolidated earnings per share were \$.56 compared with \$.79 in 1976. It should, however, be noted that in 1976 the net earnings included an unusual item of \$.39 per share arising principally from the sale of a 20% interest in PoP Shoppes of America, Inc. to Imasco Limited of Montreal.

Net operating earnings per share by quarter for the current and previous year were:

	1977	1976	% Change
First Quarter	\$.04	\$.04	-
Second Quarter13	.10	+ 30.0
Third Quarter13	.14	- 7.1
Fourth Quarter26	.12	+116.7
Net operating earnings	\$.56	\$.40	+ 40.0
Unusual item	-	.39	-
Net Earnings	\$.56	\$.79	- 29.1

Financial Position

On December 31, 1977, total assets were \$45,981,787, compared with \$32,146,369 the previous year, for an increase of \$13,835,418 or 43%. The 1977 total assets of \$45,981,787 are 13 times the total assets of \$3,535,619 at January 31, 1973.

The main increase in assets in 1977 was in investments in our licensee companies. This is a result of (a) our expansion activity in the United States, (b) a reflection of our corporate policy of divestiture of mature Canadian factories and (c) our continued policy of developing a strong licensee system throughout Canada and the United States.

Long-term debt increased to \$15,991,361 as at December 31, 1977 from \$8,096,232 the prior year. This increase in long-term debt was incurred in order to allow the Company's U.S. subsidiary to expand its corporate factory locations and to acquire the Towne Club organization. It should be noted that long-term debt will be substantially reduced in 1978 by the previously announced conversion by Imasco Limited of its \$7,680,400 debenture into 30% of the common shares of PoP Shoppes of America, Inc.

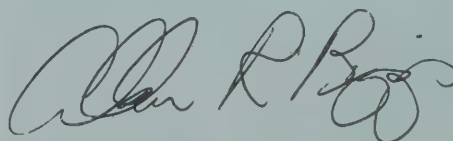
Shareholders' Equity

Shareholders' equity is now a record \$15,782,038, compared to \$13,561,655 the prior year representing an increase of 16%. Shareholders' equity now represents over 34% of the Company's total assets.

Book value per common share has increased from .04¢ per share at January 31, 1973 to \$3.59 per share at December 31, 1977, a compounded annual growth rate of 250%.

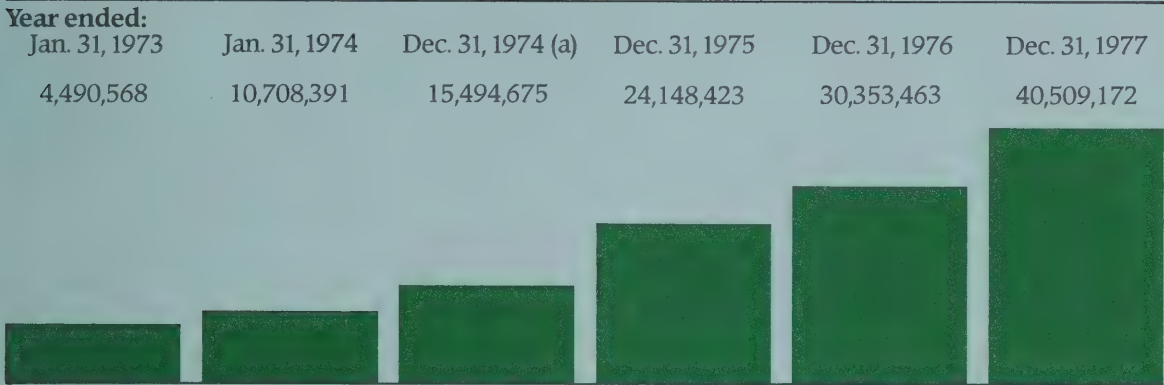
Dividends

Dividends declared in 1977 to holders of both common and preference shares amounted to \$322,491, compared with \$341,155 in 1976, a decrease of 5.5%. The decrease was a result of the conversion of 17,140 8½% preference shares to common shares. During 1977, the Company paid to the common shareholders a regular semi-annual dividend of \$.025 per share. 1977 was the first year in which the Company has paid a regular semi-annual common share dividend.

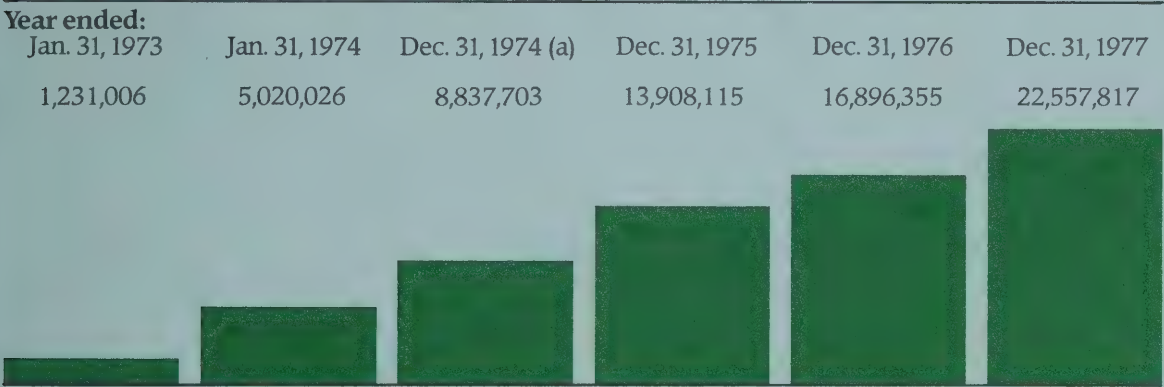


ALLAN R. BIGGS,
Vice-President, Finance

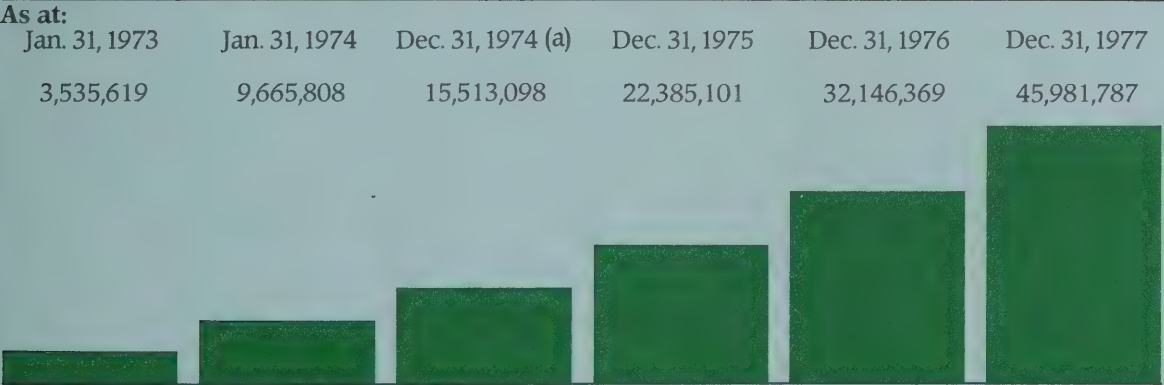
Systemwide Sales (in dollars)



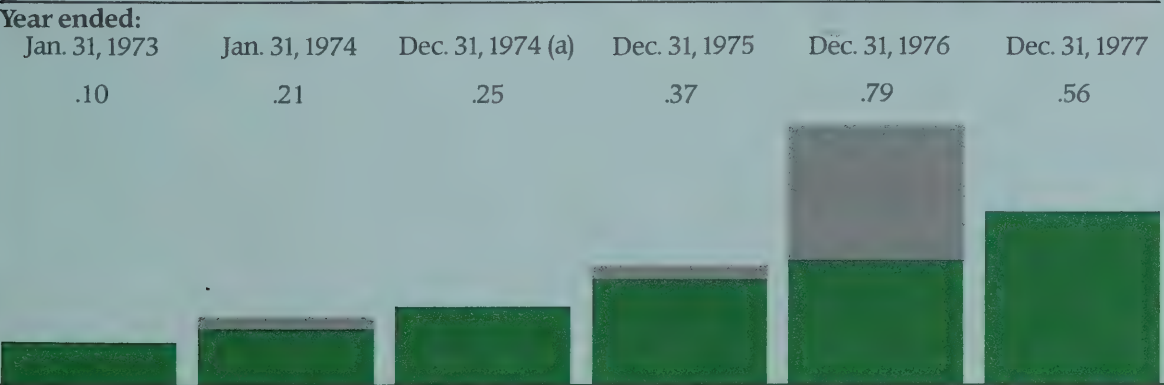
Consolidated Revenues (in dollars)



Total Assets (in dollars)




Earnings per Share (in dollars)



(a) Eleven Months

Indicates non-operating earnings for the years ended Jan. 31, 1974, Dec. 31, 1975 and Dec. 31, 1976, of \$.02, \$.03 and \$.39 respectively.

PoP Shoppes

-  Licensed Markets
-  Planned Markets





ST. JOHN'S

SYDNEY

DARTMOUTH

MONCTON

QUEBEC

MONTREAL

OTTAWA

SUDBURY

DULUTH

MINNEAPOLIS

NEWMARKET

WATERLOO

TORONTO

KINGSTON

PORTSMOUTH

BOSTON

PROVIDENCE

HARTFORD

NEW HAVEN

NEW YORK

LONDON

BUFFALO

HAMILTON

WINDSOR

DAVENPORT

INDIANAPOLIS

WASHINGTON, D.C.

RICHMOND

LOUISVILLE

NASHVILLE

JACKSONVILLE

ORLANDO

HOUSTON

MIAMI

as at December 31, 1977

PoP Shoppes International Inc. and Subsidiary Companies

Approved by the board



Director

J³ Russell

Director

LIABILITIES

1977

1976

Current liabilities

Bank advances (note 4)

\$ 2,389,141

\$ 1,882,692

Accounts payable and accrued liabilities

3,517,224

1,353,938

Income taxes

201,863

267,194

Dividends payable

132,149

246,873

Current portion of long-term debt

1,562,857

1,511,438

7,803,234

5,262,135

Refundable deposits on containers

2,572,546

1,847,228

Long-term debt (note 9)

15,991,361

8,096,232

Deferred income taxes

3,232,163

2,958,452

Minority interest in subsidiaries

600,445

420,662

\$30,199,749

\$18,584,714

SHAREHOLDERS' EQUITY**Capital stock (notes 10, 11 and 12)**

7,506,904

7,495,446

Retained earnings

8,275,134

6,066,209

15,782,038

13,561,655

\$45,981,787

\$32,146,369

Consolidated Statement of Earnings

for the year ended December 31, 1977

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PoP Shoppes International Inc. and Subsidiary Companies

	1977	1976
Revenues		
Concentrate and soft drink	\$16,980,770	\$14,413,336
License	3,669,198	1,512,637
Investment income	531,936	498,220
Gain on sale of businesses	1,375,913	472,162
	\$22,557,817	\$16,896,355
Income before the following	5,901,817	4,258,606
Depreciation	434,536	237,390
Amortization of deferred costs	578,493	386,348
Amortization of other assets	220,051	61,147
Interest on long-term debt	1,033,409	579,325
Other interest	509,756	258,689
	2,776,245	1,522,899
	3,125,572	2,735,707
Gain on sale of minority interest in subsidiary (net of tax of \$444,609)	—	1,711,633
Cost of disposal of inventory (net of tax of \$34,000)	—	(57,845)
	—	1,653,788
	3,125,572	4,389,495
Provision for income taxes (note 13)	397,371	826,439
	2,728,201	3,563,056
Minority interest in subsidiaries	196,785	26,553
Net earnings for the year	\$2,531,416	\$3,536,503
Earnings per share (note 14)		
Basic	.56	.79
Fully diluted	.54	.75

Consolidated Statement of Retained Earnings

for the year ended December 31, 1977

	1977	1976
Balance—beginning of year	\$6,066,209	\$2,870,861
Net earnings for the year	2,531,416	3,536,503
	8,597,625	6,407,364
Dividends—preference shares	106,199	125,906
—common shares	216,292	215,249
	322,491	341,155
Balance—end of year	\$8,275,134	\$6,066,209

Consolidated Statement of Changes in Financial Position 15

for the year ended December 31, 1977

PoP Shoppes International Inc. and Subsidiary Companies

	1977	1976
Source of cash		
Provided from current operations	\$ 3,227,939	\$ 4,976,876
Proceeds from issue of common shares	11,458	—
Cash acquired on acquisition of subsidiaries	564,917	12,916
Decrease in inventories, excluding containers	—	24,671
Decrease in prepaid expenses	167,886	—
Reduction of employee share purchase plans	337,899	72,594
Proceeds from liquidation of investments	6,580,916	875,369
Increase in bank advances	1,376,465	236,324
Increase in accounts payable	1,616,895	—
Increase in refundable deposits on containers	367,038	—
Increase in long-term debt	10,495,600	5,849,097
	\$24,747,013	\$12,047,847
Use of cash		
Dividends paid	437,215	126,442
Increase in accounts receivable	356,571	1,422,963
Increase in inventories, excluding containers	772,694	—
Increase in containers	888,904	395,013
Increase in prepaid expenses	—	87,472
Increase in employee share purchase plans	38,274	31,119
Increase in investments and long-term receivables	13,169,825	2,646,966
Purchase of fixed assets	1,444,361	980,112
Additions to other assets	1,451,621	656,638
Cost of subsidiaries acquired	5,782,180	160,084
Decrease in accounts payable	—	154,170
Decrease in refundable deposits on containers	—	121,567
Repayment of long-term debt	1,953,528	1,586,222
	\$26,295,173	\$8,368,768
Increase (decrease) in cash	(1,548,160)	3,679,079
Cash — beginning of year	5,989,769	2,310,690
Cash — end of year	\$4,441,609	\$5,989,769

Notes to Consolidated Financial Statements

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for the year ended December 31, 1977

PoP Shoppes International Inc. and Subsidiary Companies

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation and Accounting Standards

The purchase method of accounting for business acquisitions has been followed in the preparation of the consolidated financial statements, which include the assets, liabilities and earnings of all subsidiary companies. Earnings from businesses purchased or sold are included from or to the effective dates of their purchase or sale.

Excess costs of investments in subsidiary companies over the fair value of net assets acquired prior to April 1, 1974 are being carried in the accounts at cost without amortization. Excess costs acquired after March 31, 1974 are being amortized by charges to earnings over the succeeding forty years.

The accounting principles followed by the company are those which are generally accepted in Canada. Foreign subsidiaries' financial statements are restated for consolidation purposes to accord with such principles.

Translation of Foreign Currency

Effective January 1, 1977, the Company adopted the temporal method of foreign currency translation.

Under this method cash, receivables and payables, and assets and liabilities carried at present prices are translated at year-end rates. Assets and liabilities carried at past prices are translated at applicable historical rates. Revenues and expenses are translated at the average monthly rate of exchange during the year except that provisions for depreciation and amortization are translated at historic exchange rates.

Translation gains and losses, except as they relate to long-term assets and liabilities, are reflected in the current year's earnings.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis for raw materials and supplies, average cost for finished goods, and specific identification for equipment for resale.

Containers

Containers represent bottles and cases. Containers on hand, to the extent that they do not reflect excess quantities, are classified as inventory at deposit value. The excess of cost over deposit value of such containers and the cost of containers in the hands of customers are classified as noncurrent assets. The excess of cost over deposit value of all containers is amortized by systematic charges to earnings at the rate of 3¢ per case sold which is considered sufficient to absorb cost, less customers' depreciation, over the estimated useful lives of the containers.

Investment in Licensee Companies

Investments in licensee companies are carried at cost and income is recognized when dividends are declared.

Fixed Assets and Depreciation

Fixed assets are stated at acquisition cost. Depreciation and amortization are provided for in the accounts using the straight-line method in amounts sufficient to amortize cost over the estimated useful lives of the assets at the following annual rates:

Buildings	2½%
Machinery and equipment	5%–20%
Mobile equipment	15%
Leasehold improvements	over the term of the applicable leases

Other Assets

Costs identifiable with the company's program of opening factory stores and wholesale outlets are amortized over 60 months.

Costs incurred in connection with obtaining long-term debt are amortized over the term of the respective borrowing.

Costs incurred in the development of advertising material utilized in the company's national and local promotional campaigns are amortized over 60 months.

Refundable Deposits on Containers

The refundable deposits on containers represent monies received as deposits net of monies paid on return of containers.

Deferred Income Taxes

The company accounts for income taxes using the deferral method of tax allocation under which income taxes are provided in the year for those transactions affecting net earnings, regardless of when such items are recognized for tax purposes. Timing differences giving rise to deferred income taxes relate primarily to amortization of containers and other assets and depreciation of fixed assets, where the cumulative amounts claimed for tax purposes exceed the amounts deducted for accounting purposes.

2. ACQUISITIONS

During the year the company and its subsidiaries acquired the assets and assumed the liabilities of certain businesses, accounting for them by the purchase method as follows:

	Towne Club Beverage Corp.	PoP Shoppes (Vancouver) Ltd.	Others
Net assets acquired, at fair values:			
Total assets	\$4,531,153	\$1,876,248	\$1,104,638
Total liabilities	2,039,951	1,487,266	1,083,423
	2,491,202	388,982	21,215
Goodwill, being the excess of the purchase price over the fair value of net assets acquired	1,026,005	1,444,081	410,695
Cash consideration	3,517,207	1,833,063	431,910
Effective date of acquisition	June 30/77	June 1/77	Various

3. COMPARATIVE FIGURES

Certain of the 1976 figures on the balance sheet, statement of earnings, and statement of changes in financial position have been reclassified to conform to the 1977 presentation.

4. SECURITY FOR BANK ADVANCES

Book debts, inventories and containers together with all the shares of certain subsidiaries have been pledged as security for bank advances.

5. INVENTORIES

	1977	1976
Raw materials	\$ 284,805	\$ 234,141
Finished goods	264,015	162,031
Supplies	325,233	310,660
Equipment for resale	642,913	44,172
Containers	1,090,406	967,616
	2,607,372	1,718,620

6. INVESTMENTS AND LONG-TERM RECEIVABLES

	1977	1976
(a) Investments in shares of licensees	\$ 4,470,699	\$ -
Income debenture, mortgages and notes receivable from licensees	10,510,353	2,793,545
Due under employee share purchase plans, less current portion of \$146,004	515,350	814,975
	15,496,402	3,608,520

- (b) The employee share purchase plans are arranged for senior officers and employees, certain of whom are shareholders and directors of the company. Under these plans \$661,354 has been advanced by way of loans without interest to enable the trustee to acquire common shares on behalf of the members of the plan.

Amounts due under these plans are as follows:

1978	\$146,004
1979	24,509
1980	29,481
1981	35,664
1982-1990	425,696
	661,354

- (c) Investments include \$2,257,000 in licensee operations which to date have not reached profitable levels. Net assets with a carrying value of \$1,280,000 have been pledged as security for these investments. It is the opinion of management that future earnings in all of these licensees will be adequate to provide protection for the unsecured portion of these investments.

Notes to Consolidated Financial Statements

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for the year ended December 31, 1977

PoP Shoppes International Inc. and Subsidiary Companies

7. FIXED ASSETS

	Cost	Accumulated depreciation	1977	1976
Land	\$ 781,804	\$ —	\$ 781,804	\$ 952,211
Buildings and leasehold improvements	2,120,150	198,341	1,921,809	1,658,411
Machinery and equipment	2,868,673	501,516	2,367,157	2,376,501
Mobile equipment	371,345	125,892	245,453	167,061
	6,141,972	825,749	5,316,223	5,154,184

8. OTHER ASSETS

	Cost	Accumulated amortization	1977	1976
Opening and development costs	\$1,837,656	\$576,219	\$1,261,437	\$1,553,071
Deferred foreign exchange	324,361	—	324,361	—
Other	235,558	88,587	146,971	171,643
Advertising material	725,907	207,994	517,913	398,541
Trademark and organization expense	298,107	5,589	292,518	223,869
Excess of cost in subsidiary companies over the value assigned to the net assets acquired	5,760,008	79,943	5,680,065	3,052,418
	9,181,597	958,332	8,223,265	5,399,542

9. LONG-TERM DEBT

(a) The Company	1977	1976
(i) 14¼% debenture due 1980	\$1,120,000	\$1,560,000
Secured by a fixed and floating charge on the property and assets of the company and certain of its subsidiaries and the guarantee of certain of the company's subsidiaries in the amount of \$1,500,000 each		
(ii) Demand term loan	109,720	640,000
Bank loan due 1978 at the prime bank rate plus 1%. The bank loan is secured by investments.		
(iii) Interim loans to be replaced by long-term financing	3,023,600	—
(iv) Advances from parent company	25,803	250,705
(b) Subsidiaries		
(i) 9%–14½% debentures and mortgages due 1978–1992 secured by fixed and/or floating charges.	1,046,198	1,515,554
(ii) Conditional sales agreements due 1978–1981	98,770	220,225
(iii) Demand term loans	4,270,616	1,198,860
Bank loans due 1978–1985 at the prime bank rate plus 2–3%. The bank loans are secured by book debts, inventories and containers.		
(iv) Notes payable due 1978–1984 varying from non-interest bearing to 10%.	179,111	222,326
(v) 7% note payable to minority shareholder	7,680,400	4,000,000
	17,554,218	9,607,670
Less: Current portion	1,562,857	1,511,438
	15,991,361	8,096,232

- (c) Principal payments on long-term debt required during the next five years are as follows:

1978	\$1,562,857
1979	2,069,305
1980	1,513,602
1981	1,170,011
1982	1,166,474
	7,482,249

10. CAPITAL STOCK

(a) Authorized

81,860 first preference shares with a par value of \$25 each issuable in series, of which 41,860 shares constitute the first series designated as 8½% cumulative redeemable convertible first preference shares series A 10,089,200 common shares without par value

(b) Issued

	1977	1976
41,860 8½% first preference shares	\$1,046,500	\$1,475,000
4,395,188 common shares	6,460,404	6,020,446
	7,506,904	7,495,446

The 8½% first preference shares may be redeemed at the option of the company after July 15, 1978 and on or before July 15, 1979 at \$30 per share. The redemption price decreases by \$1 each year to July 15, 1983 and thereafter is par value.

(c) Changes in Capital Stock

	1977 Number of shares	1977 Amount	1976 Number of shares	1976 Amount
PREFERENCE SHARES				
Balance—beginning of year	59,000	\$1,475,000	60,000	\$1,500,000
Converted to common shares	(17,140)	(428,500)	(1,000)	(25,000)
Balance—end of year	41,860	1,046,500	59,000	1,475,000
COMMON SHARES				
Balance—beginning of year	4,304,988	6,020,446	4,299,488	5,996,785
Issued under employee share purchase plan	4,500	38,274	500	3,150
Issued for conversion of preference shares	85,700	428,500	5,000	25,000
	4,395,188	6,487,220	4,304,988	6,024,935
Less: Costs of issue	—	26,816	—	4,489
Balance—end of year	4,395,188	6,460,404	4,304,988	6,020,446

Notes to Consolidated Financial Statements

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for the year ended December 31, 1977

PoP Shoppes International Inc. and Subsidiary Companies

11. STOCK OPTION AND OTHER RIGHTS

The 14¼% debenture holder has an option to purchase 169,286 common shares at a price of \$3.79 per share. This option is exercisable at any time until mid 1980.

The 8½% first preference shares are convertible up to July 15, 1980 on the basis of 5 common shares for each preference share and from July 15, 1980 to July 15, 1985 on the basis of 3 common shares for each preference share.

12. RESTRICTION ON PAYMENT OF DIVIDENDS

The company has agreed not to make payments of dividends in any year in excess of 50% of its consolidated net earnings of the previous year without consent of the 14¼% debenture holder.

The provisions attaching to the first preference shares of the company preclude declaring or paying dividends (other than certain stock dividends) on its outstanding common shares unless all dividends accumulated on the first preference shares have been paid or set apart for payment. Such provisions further provide that no dividend (other than certain stock dividends) may be declared on the common shares of the company except out of consolidated net earnings available for dividends earned subsequent to December 31, 1974 or out of the proceeds of any issue of shares by the company after August 12, 1975.

13. PROVISION FOR INCOME TAXES

	1977	1976
Current	\$154,245	\$ 267,194
Deferred	243,126	969,854
	397,371	1,237,048

14. EARNINGS PER SHARE

(a) Basic earnings per share have been calculated using the weighted average number of shares outstanding during the period.

(b) Fully diluted earnings per share have been calculated after giving effect to the exercise of the outstanding stock option and other rights and conversions of the 8½% first preference shares. In this calculation, earnings after taxes of \$30,800 were imputed at the rate of 9% on the deemed proceeds on the exercise of the options.

15. COMMITMENTS

PoP Shoppes of America, Inc., a subsidiary, has granted an option to a minority shareholder, Imasco Limited of Montreal, for the purchase of such treasury shares as will, after the issue, constitute 50% of the issued common share capital of that company. The option is exercisable prior to October 31, 1978 for a price of \$7,000,000 (U.S.).

Subsequent to December 31, 1977, the minority shareholder has declared its intention to exercise this option.

16. CONTINGENT LIABILITIES

The company and its subsidiaries have guaranteed debts in the amount of \$2,254,500 (1976-\$373,500) on behalf of licensee companies. Of the \$2,254,500, the company has received personal indemnifications from the licensee owners in the amount of \$355,600. In addition to the amounts indemnified, the company has made arrangements to be released from its present guarantees prior to December 31, 1978 in the amount of \$1,183,900.

17. LONG-TERM LEASES

Minimum annual commitments under lease agreements are as follows:

1978	\$ 428,500
1979	389,800
1980	276,800
1981	203,400
1982	156,700
	\$1,455,200

18. ANTI-INFLATION LEGISLATION

The company and its subsidiaries are subject to, and have complied with, the restraint of profit margins, dividends and compensation under the provisions of the Canadian Anti-Inflation Act and Regulations which became effective October 14, 1975.

19. STATUTORY INFORMATION

The aggregate direct remuneration paid or payable by the company and its subsidiaries to directors and senior officers (as defined by The Business Corporations Act, Ontario) amounted to \$328,590 (1976-\$320,905).

Auditors' Report to the Shareholders

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We have examined the consolidated balance sheet of PoP Shoppes International Inc. as at December 31, 1977 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COOPERS & LYBRAND
Chartered Accountants

Kitchener, Ontario
March 31, 1978

	1977	1976	1975	1974 (a)	1974 (b)	1973 (b)
Revenues	22,557,817	16,896,355	13,908,115	8,837,703	5,020,026	1,231,006
Earnings from operations	3,125,572	2,735,707	2,191,505	1,493,688	1,014,187	253,837
Earnings before Extraordinary items -per share	2,531,416 .56	3,536,503 (c) .79	1,323,344 .34	840,405 .25	585,815 .19	96,981 .10
Net Earnings -per share	2,531,416 .56	3,536,503 .79	1,420,344 .37	840,405 .25	645,966 .21	96,981 .10
Cash flow per share	.97	\$1.15	.60	.42	.29	.27
Shares outstanding (d)	4,331,663	4,302,904	3,523,823	3,361,620	3,049,278	1,012,500
Dividends—preference -common	106,199 216,292	125,906 215,249	111,885 —	— —	— —	— —
Total Assets	45,981,787	32,146,369	22,385,101	15,513,098	9,665,808	3,535,619
Shareholders' Equity	15,782,038	13,561,655	10,367,646	4,772,133	3,263,492	97,048
Book value per share (e)	3.59	3.15	2.41	1.40	1.02	.04

(a) Eleven months ended December 31, 1974.

(b) Year ended January 31st.

(c) Includes gain of \$1,711,633 on the sale to Imasco Limited of 20% of the equity of PoP Shoppes of America, Inc., which represents \$.39 per share.

(d) Weighted average of common shares outstanding during the year.

(e) Based on the common shares outstanding at the end of the year.

BOARD OF DIRECTORS

*ALLAN R. BIGGS, C.A.
Vice-President, Finance

†V. EDWARD DAUGHNEY, C.A.
President
Great Northern Financial Corporation

SCOTT GRIFFIN
Vice-President

*JEREMY N. KENDALL
Chairman
Venturetek International Limited

DONALD E. LOEB
President
Venturetek International Limited

†JACK M. TIPTON
Attorney at Law
Wild, Carter, Hamlin, Tipton & Quaschnick
Fresno, California

*BRUCE M. WESTWOOD
President and Chief Executive Officer

(*Members of the Executive Committee)

(†Members of the Audit Committee)

POP SHOPPES INTERNATIONAL INC.

Executive Officers

JEREMY N. KENDALL
Chairman of the Board
BRUCE M. WESTWOOD
President and Chief Executive Officer
ALLAN R. BIGGS
Vice-President, Finance
SCOTT GRIFFIN
Vice-President
DAVID G. CSUMRIK
Treasurer
DONALD E. LOEB
Secretary
EDWARD M. YEATS
Controller



INVESTMENT BANKERS

Merrill Lynch, Royal Securities Limited

AUDITORS

Coopers & Lybrand

SOLICITORS

Goodman & Goodman—Toronto, Ontario
 Shepherd, McKenzie, Plaxton, Little & Jenkins
 —London, Ontario
 Holland & Hart—Denver, Colorado

PRINCIPAL BANKERS

The Royal Bank of Canada
 The Royal Bank and Trust Company
 Colorado National Bank
 The Mitsubishi Bank of California

TRANSFER AGENT AND REGISTRAR

Canada Permanent Trust Company

STOCK LISTINGS

Toronto Stock Exchange
 Montreal Stock Exchange
 National Over-the-Counter Market (NASDAQ)

SYMBOL

PSI
 PSI
 PSIF

PoP Shoppes International Inc.

146 Yorkville Avenue,
 York Square,
 Toronto, Ontario
 M5R 1C3

PRINCIPAL SUBSIDIARIES**PoP Shoppes of Canada Limited**

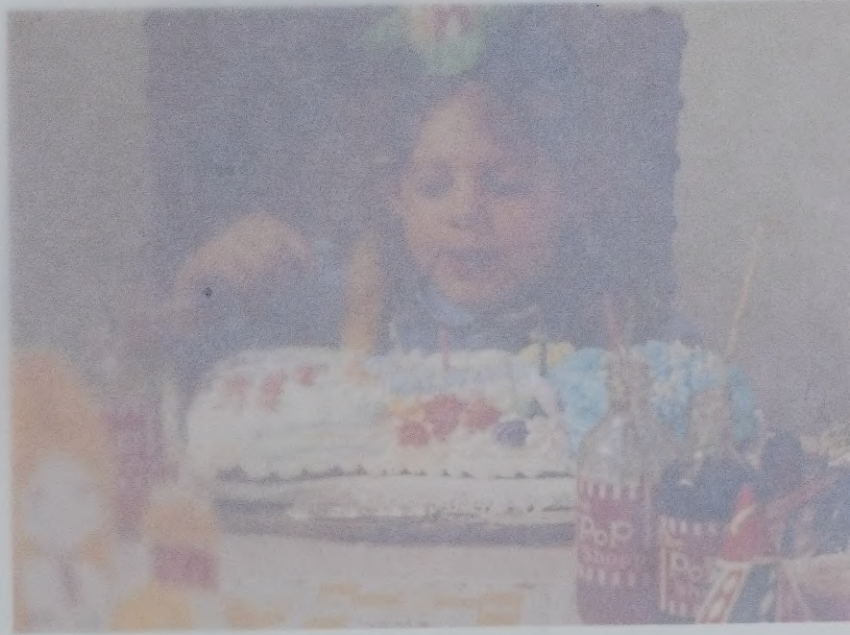
146 Yorkville Avenue
 Toronto, Ontario
 M5R 1C3 967-0001
 BRUCE M. WESTWOOD
 Chairman of the Board
 WILLIAM W. HOOD
 President
 EDWARD M. YEATS
 Vice-President, Finance
 WILLIAM Y. MAY
 Vice-President, Marketing
 PAUL DENOMME
 Treasurer
 DAVID G. CSUMRIK
 Secretary

PoP Shoppes of America, Inc.

1201—18th Street
 Suite 240
 Denver, Colorado 80202
 U.S.A. (303) 629-7333
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 SCOTT GRIFFIN
 President
 JAMES M. STROHAN
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 CHRIS W. E. HOVEY
 Executive Vice-President
 WILLIAM S. MacKENZIE
 Vice-President, Marketing
 DALE V. LUECK
 Vice-President, Technical Services
 JOHN L. GALLIVAN
 Controller and Assistant
 Treasurer

Kist Canada Limited

11 Cobourg Street
 Stratford, Ontario
 N5A 6T1 (519) 271-1550
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 President and General Manager
 LEWIS E. OAKLEY
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